2005/2006 Annual Report

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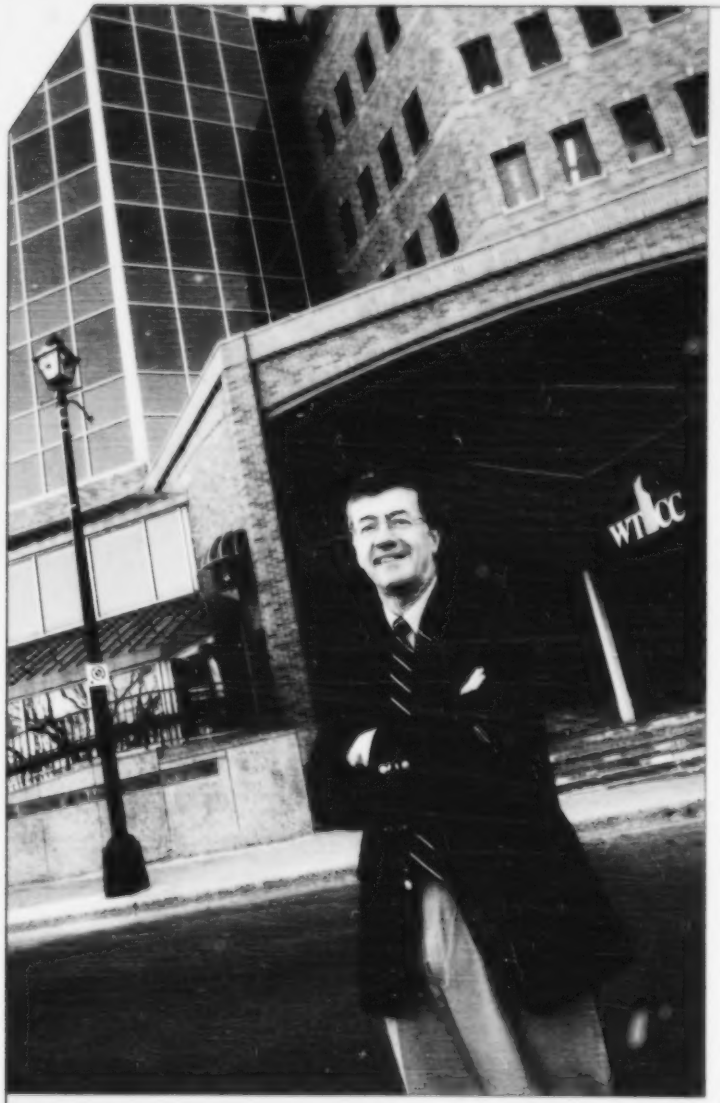
Nova Scotia Business Inc.

Opportunity. Growth. Prosperity.

I N N O V A T I O N + C O L L A B O R A T I O N



Craig Stanfield, Manager, Investment Projects, Business Development

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TABLE OF CONTENTS

Message from the President and CEO, and the Chair Of The Board	1
Explore NSBI	5
Investment Attraction	6
Case Study: Research In Motion - Creating A Job-A-Day	7
Case Study: Consolidated Fastfrate - Charting A Course For Nova Scotia	9
Business Growth	10
Case Study: Register.com - Growing Its Domain	11
Case Study: L&M Highland Outfitters - Tradition With A Twist	13
Corporate Governance	15
Corporate Scorecard	17
Financial Reports	20

Message from the President and CEO, and the Chair Of The Board

Equipped with a clear vision and an even stronger business case for Nova Scotia, the NSBI team entered 2005 / 2006 with an eagerness to extend our global reach and continue to promote Nova Scotia as a great place to do business.

F. Thomas Stanfield and Stephen E. Lund

As we reflect on 2005/2006 as a record year for NSBI, we see an organization that has matured and has capitalized on the achievements in its first four years of operations. In a short time, NSBI, along with its partners, have built a solid platform for Nova Scotia that will continue to open doors for opportunity in the future. By broadening our perspective and refining our processes, NSBI has created and maintained more jobs, expanded the size of our portfolio and leveraged more opportunities for Nova Scotia businesses. The results speak for themselves.

At the root of this success are two concepts very familiar to NSBI and Nova Scotia businesses - collaboration and innovation.

COLLABORATION - the business owners and managers interviewed for the fourth annual NSBI business issues survey used the term repeatedly. NSBI refined the principle to establish Team Nova Scotia, bringing leading business and industry representatives, academics and senior government officials together to secure one of our most significant investments to date, Research In Motion (RIM).

INNOVATION - the common thread in all of the success stories profiled in this report also infused many of NSBI's operational activities in 2005/2006. This year's annual report is an interim step in our plan to develop a fully interactive, web-based report. Staying innovative and positioning our organization as a leader in the business development arena was the motivation behind our continued re-branding efforts and the development of our new website. Innovation was also the impetus for a series of roundtable discussions with businesses and industry leaders to identify future opportunities in information technology (IT) and other areas like defence and aerospace. Experience, innovation and success in the contact centre industry helped position the province as a nearshore destination for US-based companies requiring technical support including software development and customer service support. Innovations in the financial services industry have also made Nova Scotia a viable destination for investment management firms. The skills and capabilities of our workforce continue to support innovation in manufacturing, so crucial to industries like defence and aerospace. Understanding what's going on in places such as China, India, Israel and other economies is essential to positioning our exporters and attracting businesses to the province.

Since inception in November 2001, NSBI initiatives are expected to create or maintain over 16,000 jobs.

Analyzing the practices and trends surfacing on the other side of the world enables us to identify our innovation advantage and to market that successfully.

Although innovation and collaboration are not measures in the 2006 KPMG Competitive Alternatives report, the four Nova Scotia centres topping the list have applied these concepts with great results. Truro, Pictou, Sydney and Halifax ranked among the top 10 most competitive Canadian centres in overall business costs. And once again, Halifax ranked among the top five in a cost comparison of 95 large, international centres from North America, Europe and Asia-Pacific.

Economic Outlook

The provincial economy remained strong in 2005/2006.

- International exports were up 3.5 per cent over last year.
- Manufacturing shipments rose by 5.6 per cent.
- Personal income per capita was up 4.5 per cent.
- The value of building permits was up 5.6 per cent.

Assessing the Results

Seasonally adjusted figures for Spring 2006 put provincial unemployment at 8.0 per cent for the province. That's approximately 15 per cent lower than any other province in Atlantic Canada.

Halifax has one of the lowest unemployment rates east of Alberta. At 5.0 per cent, the city has a lower unemployment rate than Winnipeg, Toronto, Ottawa, Montreal and Quebec. What is propelling this growth? New and incremental job opportunities. There is no better testament to the strength of a province and the strength of its economy. Nova Scotia has proven that sustainable jobs are critical to growth.

From our perspective, NSBI has posted a record year in terms of job creation. RIM's expansion alone is expected to create 1,200 jobs. Since inception in November 2001, NSBI initiatives are expected to create or maintain over 16,000 jobs. This puts us on target to hit our five-year total of creating and maintaining 18,000 jobs. We estimate that the impact of our results to date will generate a payroll impact of more than $500 million annually with a direct tax impact of over $70 million annually for the province.

This success has created another challenge, a potential shortage of skilled and qualified people, particularly in IT. With over 3,500 jobs committed in this field alone, NSBI has developed an IT labour strategy. The goal of the strategy is to develop, retain and repatriate the employees needed to support the tremendous growth on the horizon for local and attracted companies.

Highlights

From one of the world's most innovative companies, RIM, to L&M Highland Outfitters, a local company successfully repositioning an age-old product, the case studies highlighted in this report represent the range and importance of NSBI's initiatives in 2005/2006.

Research In Motion

Guided by a Team Nova Scotia concept, the province welcomed RIM to Halifax in November 2005. For two years, NSBI and its partners pulled out all the stops to prove that our province made perfect business sense as the location for RIM's upcoming expansion. Less than a year following the announcement, the company already has more than 100 employees in place in Halifax and will continue to create one job every business day for the next five years. For Jim Balsillie, chairman and co-CEO of RIM, it was the talented IT workforce that sealed the deal for the city. "In Halifax, we have found a vibrant and creative IT community to validate our decision to make Nova Scotia a location of growth for our rapidly expanding global operations."

Consolidated Fastfrate

NSBI also saw success in the transportation arena with the expansion of Consolidated Fastfrate. Since its inception in 1966, the company has generated approximately $225 million in annual revenues and ships over 2.4 billion pounds of freight annually. In February 2006, Consolidated Fastfrate announced the construction of a trans-shipment facility in Dartmouth. This new expansion to the province will help meet the demands of exporters while bringing new shipping opportunities to the Port of Halifax, and will further establish the region as a key gateway to North American markets.

Register.com

In May 2005, NSBI announced the expansion of Register.com, a leading provider of global domain name registration and Internet services. The company set up shop in 2001 with an inbound call centre in Yarmouth. Now, Register.com plans to create as many as 270 new jobs in the province. "We welcomed the opportunity to expand operations in Nova Scotia and have been extremely pleased with the calibre of our new employees," says Sandy Ross, director of Canadian operations for Register.com.

NSBI's Business Advisory Team (BAT)

L&M Highland Outfitters

A trade mission to Scotland in 2005 helped L&M Highland Outfitters, a Dartmouth-based designer and manufacturer of Scottish regalia attire, recognize their business advantage in the global marketplace. For co-owner Peggie MacLean, the NSBI mission opened the company to the world. Now, the L&M logo can be found everywhere - from pipers at the Edinburgh Tattoo to dancers in the New York City Ballet.

Taking Care of Business

As we said before, results like this don't just happen. In many instances, we saw the benefit of more than three years of strategic focus and determination. Throughout the process, NSBI has matured as an organization and has helped to position the province for success in a number of ways.

Once again on the front lines, our business advisory team (BAT) led the charge working with businesses owners and managers across the province to assess opportunities and support growth. During 2005/2006, these six individuals proactively carried out more than 800 face-to-face meetings with businesses in every region of the province, creating close to 400 qualified referrals to help these businesses grow. The BAT has helped take Nova Scotia businesses to the next level of growth.

Wendy Luther, Trade Development Executive

With an emphasis on alignment and by further refining our sectoral focus, NSBI's business development executives concluded 15 transactions with some of the world's top companies in sectors like IT and defence and aerospace. Close to 3,900 jobs will be created and maintained through payroll rebate investments alone. This translates into a return on investment to the province of approximately 58 per cent. The long-term benefits of these transactions will be felt for years to come and the initiatives have already opened doors to the future.

With a new approach to marketing and an emphasis on trade development, NSBI's trade team continues to break new ground. The team arranged more than 1,300 selling/partnering meetings for clients and led or facilitated a total of 16 trade missions and shows. This work has assisted 197 businesses in expanding their markets. An estimated $54 million in incremental sales were reported from these clients.

NSBI's financial services team created 12 new client-focused solutions, providing capital to fit the needs of growth-oriented companies in all parts of Nova Scotia. These solutions were the result of 280 meetings with prospective clients, many of which were conducted during 19 advertised visits throughout the province.

Our Partners

Reflecting on 2005/2006, NSBI recognizes the strong partnerships that we have built, which have helped us in strengthening Nova Scotia's business case. Working with the provincial Office of Economic Development, community-based businesses and economic development groups, our universities and colleges, industry associations, as well as a number of provincial and federal departments and agencies such as ACOA, ECBC, Industry Canada, and International Trade Canada, NSBI was better able to establish and achieve its goals.

Internal Alignments

The evolution of working relationships continued within NSBI in 2005 / 2006. Closer alignment of our teams in export, business advisory, financial services and investment attraction created new strengths and opportunities.

Looking Forward

Building on the potential and the opportunities generated in 2005/2006 will drive much of NSBI's activity in the upcoming year. NSBI will continue to focus on IT with an emphasis on expanding the range of opportunities and providing higher paying, higher value jobs for Nova Scotians. We will formally launch our IT labour strategy in 2006 and establish a web portal to provide single-site access to career opportunities in Nova Scotia. The emergence of the Atlantic Gateway and our growing defence and aerospace industry will also be a focus and we will continue to work with innovative businesses in important sectors like life sciences, financial services and energy.

NSBI will continue to support business development through programs, services and financial solutions. We will explore the global marketplace for opportunities to support home-grown companies and to attract new companies to the province. As our first five-year mandate ends, NSBI is developing the next five-year plan in 2006/2007 to build on our successes to date. For 2006/2007, our business outlook will be focused, forward-thinking and will strengthe he concepts that serve us so well - collaboration and innovation.

At NSBI, we are driven by our mission statement,

" To deliver client-focused business solutions that result in sustainable, value-added economic growth for Nova Scotia."

Explore NSBI

NSBI works with growth-oriented businesses locally and on an international scale to support business growth in Nova Scotia. We bring exciting job opportunities to the province by attracting new and fresh businesses. We also support home-grown talent that are focused on growing and exploring new markets.

NSBI is governed by a board made up of 13 Nova Scotia business leaders. With 65 permanent full-time positions, our dedicated and forward-thinking employees have knowledge and expertise in finance, business development, export and investment attraction. Hiring business people to work with business people is one of NSBI's core strengths. Our ability to understand the business and the need to generate results is often referenced by our clients. Our staff collaborates with businesses to understand their individual needs and aims to develop solutions through our variety of business services.

At NSBI, we are driven by our mission statement, "To deliver client-focused business solutions that result in sustainable, value-added economic growth for Nova Scotia." As a team, we work to bring our mission into every business meeting and every client deal. We support businesses by giving them the skills to encourage growth and the financial resources to develop new technologies. We work to help Nova Scotia businesses seize opportunities to succeed and grow at home and in markets across the globe.

NSBI works hard to attract growth-oriented companies that match Nova Scotia's strong business case. Our province prides itself on having a highly educated workforce, proximity to major markets, a supportive business culture and geopolitical stability. We are determined to harness the multiple strengths of our province and will continue to bring new and exciting opportunities to Nova Scotia's business community.

NSBI's objectives:

1. To help existing companies in Nova Scotia expand business opportunities, with a particular focus on exporting.
2. To attract leading edge and sustainable business investment to Nova Scotia.
3. To provide access to capital for businesses.
4. To increase recognition of Nova Scotia, its business climate and capabilities.
5. To develop an action-oriented organization that supports high performance, professionalism and excellence.

Investment Attraction

NSBI's investment attraction team achieved a banner year in 2005/2006. By working with our partners in the provincial and federal governments, as well as the regional development agencies in the province, we were able to attract a record number of companies and jobs to Nova Scotia.

In fact, a study by E&B Data showed that during the 2005 calendar year, Nova Scotia attracted the fourth highest number of foreign direct investment projects in the country.

The Result

An impressive 15 world-class companies signed agreements to establish or expand operations in Nova Scotia in 2005/2006. With the use of growth tools such as payroll rebates and loan support from partners like the provincial Office of Economic Development, NSBI played a key role in transactions and provincial commitments of $34.9 million.

Over the lifespan of these agreements, the 15 projects will create and maintain up to 3,967 jobs. At an average salary range of $39,994, these new positions exceed the province's average salary by approximately 30 per cent.

Team Nova Scotia

NSBI gave new meaning to the Team Nova Scotia concept in 2005/2006. Assembled to put forth a strong, unified presentation to RIM, the concept won wide approval from all participants, including representatives from all levels of government, industry and the academic community. This approach sent a powerful message to prospective clients that we are open for business and collectively motivated to make Nova Scotia an even greater place to do business.

" Along with our support for local businesses, NSBI travelled beyond its borders and brought leading international companies to our province. Like many before them, they tapped into the Nova Scotia business advantage and helped in strengthening our province's growing economy. "

- Bob Daigle, Vice-President, Business Development.

Case Study: Research In Motion – Creating a Job-a-Day

You know you have something great when a world-leading IT company expands its business in your backyard. Especially when that company is Research In Motion (RIM).

Since launching BlackBerry® in 1999, RIM has accomplished something that most IT companies only dream about: a technological icon. As a world-leading designer, manufacturer and marketer of innovative wireless solutions, RIM's portfolio of award-winning products and technologies are used by thousands of organizations and millions of people worldwide. In such a short time, RIM's customer base has grown to over five million subscribers and is supported on over 180 carrier networks in over 60 countries.

NSBI and its partners pulled out all the stops to prove that Nova Scotia made perfect business sense as the location for RIM's upcoming expansion. With our analysis in hand, NSBI made a cold call. Halifax wasn't an original contender for the technical support operations centre, but it didn't take long for RIM chairman and co-CEO Jim Balsillie to recognize that Nova Scotia had "something we should take another look at." NSBI, along with Team Nova Scotia, worked hard to bring this international success story to the province. Convincing the executives to take a chance on Halifax was their biggest challenge. By generating support at all levels, the team overcame several obstacles and confirmed for RIM that Nova Scotia was the right place to do business.

Fast forward two years and RIM has already begun its operations in Halifax. Since announcing the establishment of a technical support operations centre in November 2005, the company has already hired more than 100 employees and will hire up to 1200 full-time IT employees over the next five years; that's one new hire every business day for the next five years. RIM's office in Halifax will be a high-level tech-support centre. Anyone from technicians to service providers can call to troubleshoot BlackBerry's technological intricacies. In turn, the centre will feed new research and development (R&D) ideas back to RIM's engineers.

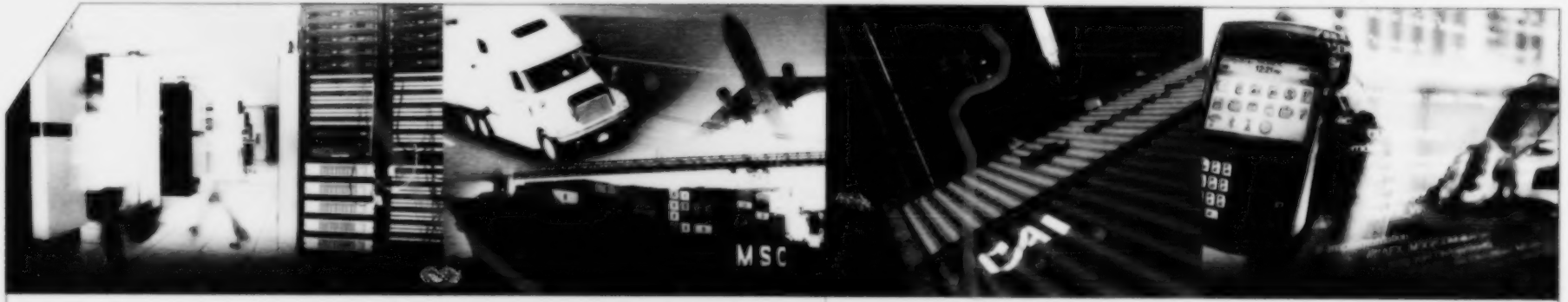
The province's dedicated and highly skilled workforce was a key driver in bringing RIM to Halifax. More than 1000 people in software and technology-related programs graduate from Nova Scotia's post secondary institutions each year.

NSBI's business development executive, Jennifer Chiasson with Jim Balsillie, Chairman and Co-CEO of Research In Motion (RIM), at the November event announcing the company's expansion in Halifax.

Not to mention that 14,000 people are employed in Nova Scotia's IT sector with just over 8,300 employed in software and services. Nova Scotia has 11 universities and 13 community college campuses. With an already thriving post-secondary IT community, RIM's expansion will mean more opportunities for Nova Scotia graduates to stay and build careers in the province.

"The particular attraction of the area is the very high skilled workforce. First and foremost is the quality of the people, the training and the education infrastructure. That is really what we're looking for," says Balsillie. "RIM believes Nova Scotia's post-secondary research environment and talented IT labour pool will be instrumental in fueling our progress."

RIM is a significant addition to our province's IT sector. RIM puts Nova Scotia on the map worldwide and advances NSBI's objective of creating a world-class IT community.



Looking Forward

In 2006/2007, we will continue to leverage our successes and increase our capacity in areas where we have the most potential. The investment attraction team will continue the aggressive pursuit of opportunities in IT and business process outsourcing (BPO). We will have a renewed focus in attracting IT and R&D opportunities to the province, including product software, computer gaming and wireless companies.

NSBI will also leverage the presence of Canadian military assets in Nova Scotia to further develop our defence and aerospace sector, focusing on maintenance, repair and overhaul (MRO) and advanced manufacturing, as well as IT opportunities in defence and marine security. We also intend to focus on the Atlantic Gateway, which will provide many future opportunities for the province.

We will also work to develop investment in areas such as energy, financial services and life sciences, capitalizing on existing infrastructure and expertise. We plan to explore new investment opportunities beyond North America, focusing on the major economic centres in Europe.

New Investment in 2005/2006

Register.com ****

Sapient *

Metasoft Systems *

Convergys *

West End Capital Management *

Maritime Travel *

Research In Motion ***

SolutionInc Technologies Limited *

Consolidated Fastfrate ***

On-Line Support Incorporated *

SportsDirect Inc. *

L-3 Communications *

ADP Canada *

Stenek Corporation **

*NSBI Payroll Rebate **NSBI Project Management + OED Loan ***NSBI Payroll Rebate + OED Assistance ****NSBI Payroll Rebate, Municipal Assistance + OED Assistance

These investments are expected to create and maintain up to 3,967 jobs over the life of the agreements.

Case Study : Consolidated Fastfrate - Charting A Course For Nova Scotia

" Currently, we transload approximately 20,000 containers a year in Vancouver and we expect to replicate that service in Halifax, making Fastfrate the only company working the east and west coasts of Canada."

- Ron Tepper, President and CEO of Consolidated Fastfrate

What do you get when you attract one of the largest private companies in transportation and logistics? Exciting opportunities for the Port of Halifax and the Province of Nova Scotia.

With approximately $225 million in annual revenues and shipping that exceeds 2.4 billion pounds of freight annually, Consolidated Fastfrate is getting bigger and Nova Scotia is growing with it. In February 2006, the company built on its success by announcing the construction of a new trans-shipment facility in Dartmouth. Burnside Industrial Park was chosen as the site for the facility because of its competitive advantages as a major shipping and distribution hub. Through many strategic partnerships, the province was able to present a strong business case for Halifax Regional Municipality (HRM) as the right place for Consolidated Fastfrate to grow.

This expansion gives proof to our province's position as a leading gateway to North American markets. This development will create over 200 job opportunities for Nova Scotians. The introduction of a new trans-shipment facility to the city will help meet the demands of exporters while bringing new shipping opportunities to the Port of Halifax.

Since Consolidated Fastfrate began operations in 1966, the company has enjoyed strategic partnerships with growth-oriented companies like Canadian Tire, Hudson Bay Corporation and Home Hardware Limited. These companies have grown together, and like NSBI, they value the partnerships they have made with the company.

Home Hardware Limited describes Consolidated Fastfrate as a company that has "always been proactive in our supply chain management processes, on the cutting edge of technology development and ensuring an enhancement of the partnership to the valuable state it is today. They are one of our top suppliers."

Business Growth

"Nova Scotia's economy is stronger today than it has been in decades. Our province is home to some of the world's most innovative, forward-looking businesses that continue to grow and prosper in today's global market. NSBI works with these companies to help them achieve their goals through customized, client-focused solutions."

- Pat Ryan, Vice-President and Chief Operating Officer

Making it Happen: Team and Toolkit

Having access to the right resources is vital to the success and sustainable growth of Nova Scotia businesses, large and small. NSBI's toolkit is designed to support those businesses in making their goals a reality.

NSBI's dedicated team makes the difference. In 2005/2006, our team continued to seek out and develop opportunities for companies with proven track records and solid business cases for growth.

NSBI's financial services team has the expertise and resources to support businesses of any size anywhere in Nova Scotia. The team works with companies to determine the right financing plan for sustained business growth.

Our approach to export development gives Nova Scotia companies the tools they need to increase sales revenues beyond our province's borders. NSBI's trade team uses a collaborative approach that allows them to work with companies across all sectors.

Our BAT account executives are Business Retention and Expansion (BRE) certified and are pioneers of the BRE model in Nova Scotia. NSBI's team acts as gatherers of business information in the field, as consultants and advisors on long-term sustainable business growth, and as facilitators of NSBI and partner programs and services.

Case Study: Register.com – Growing Its Domain

(left to right) Economic Development Minister Richard Hurlburt, Premier Rodney MacDonald, and Sandy Ross, Director of Canadian operations for Register.com

2005/2006 was not only a year of "welcome" for new business attraction, it was also a year of "hello again." In May 2005, Nova Scotia said "hello again" to Register.com, a leading provider of global domain name registration and Internet services.

The New York-based company was a newcomer to Nova Scotia in 2001 when it set up an inbound call centre in Yarmouth. Approximately 260 jobs were created with this new development, and in 2005 the company revealed more great news for the province.

"Workers in Nova Scotia are well educated, highly skilled and loyal to their companies. We welcomed the opportunity to expand operations in Nova Scotia and have been extremely pleased with the calibre of our new employees."

– Sandy Ross, Director of Canadian operations for Register.com

Through the support of coordinated agreements between the municipal and provincial governments, Register.com announced an expansion that would grow its Nova Scotia operations by as many as 570 jobs over the next five years.

Under the agreements, newly created positions could include more jobs at the existing Yarmouth centre, as many as 120 new higher skilled, higher paid jobs, and up to 150 new work-from-home positions from southwestern and rural Nova Scotia.

Beyond the exciting job numbers, this expansion will expose employees to new specialized technologies as well as international markets that will help to develop new skills for Nova Scotia's IT community.

Since it set up shop in the province in 2001, the company has become one of the largest employers in the town of Yarmouth and has played a key role in the region's economic growth.

It was the excellent performance of Register.com's Yarmouth team that sealed the deal for the recent Nova Scotia expansion.

In total, NSBI's financial investments are expected to create or maintain 500 jobs, which have a total annual payroll impact of more than $24 million.

Collaboration

NSBI continued to focus on strengthening alliances in 2005/2006. The result: the maturing of working relationships both within our ranks and with our partners.

Our export development and business advisory teams found new ways to collaborate, increasing trade expertise available to businesses in the regions and increasing rural business participation in export programs.

Closer alignment between our business advisory and financial services teams served to enhance NSBI's working relationships with key community-based partners, including the Regional Development Authorities (RDAs) and the Community Business Development Corporations (CBDCs).

The Result

Financial Services

NSBI's financial services team completed several transactions that made a significant impact on our economy and to Nova Scotians. In 2005/2006, NSBI authorized a total of $8,045,000 to strengthen businesses in Nova Scotia's foundation and technological industries alike. For every NSBI dollar invested through the financial services team, an additional $1.60 in investment was leveraged from public and private sector investors. This totals more than $12.8 million from other sources. NSBI also continued to actively manage a portfolio of approximately $170 million.

In total, NSBI's financial investments are expected to create or maintain 500 jobs, which have a total annual payroll impact of more than $24 million.

Business Advisory Services

During the past year, the business advisory team provided on-the-ground presence across the province. While maintaining a two-way flow of information with the business community in their respective jurisdictions, NSBI's regionally-based executives organized or took part in more than 800 face-to-face meetings with owners and managers. These meetings resulted in nearly 300 referrals to partner programs and services. Furthermore, these referrals resulted in nearly 24 business advisory-led projects that ultimately generated 65 new jobs and maintained an additional 31 jobs in rural Nova Scotia.

Working with their trade development executives as part of the business growth unit, the business advisory team increased their ability to recognize export potential among clients. In 2005/2006, they helped 115 rural-based companies access NSBI's financial and export development services.

Export Development

NSBI's trade team continued to work with Nova Scotia companies in 2005 / 2006 to penetrate new markets and expand their growth in existing ones. Using an extensive repertoire of programs and services, trade development executives match companies with pre-qualified buyers, distributors and potential partners in export markets around the world such as Germany, the United States and China.

Case Study: L&M Highland Outfitters – Tradition With A Twist

" It really opened us up to the world. We always knew we had an advantage, but it was really cemented for us by visiting Scotland. You can find the L&M logo everywhere – from pipers at the Edinburgh Tattoo, to dancers in the New York City Ballet. It's a great thing."

– Peggie MacLean, Co-owner, L&M Highland Outfitters

A lot can change in forty years. Ask Peggie and Joe MacLean, co-owners of L&M Highland Outfitters – a Dartmouth-based company that designs and manufactures Scottish regalia like sporrans, feather bonnets, and bagpipe bags. The company is in its 40th year of production, and Peggie and Joe have been at the helm for 15 years.

"The business came from very traditional roots, and a traditional way of doing business," says Peggie. "Much of that tradition has remained, but we've moved to a more innovative and global path."

Based on the framework set by the company's previous owners, Peggie and Joe brought L&M Highland to the next level of growth. Now, the company employs between eight and 10 people and sells regularly to 300 retail shops throughout North America. L&M Highland also has retail clients in Scotland, Ireland, Australia and New Zealand.

In 2005, the company participated in a lean manufacturing program. When it was done, Peggie and Joe realized that it was time for new business. "We were ready to take L&M to the world." That same year, they joined forces with NSBI's trade team and accompanied nine other companies on a trade mission to Scotland.

"We saw it as an opportunity," says Peggie who, along with Joe, attended 11 client meetings during their stay. Before travelling to Scotland, they did a lot of research to make sure they made the most of the mission. Their hard work paid off. "Growth has been phenomenal; we definitely made back in sales the cost of the mission."

The Export 101 Program draws on the experience of NSBI's trade development team. Delivered in communities throughout the province, Export 101 teaches the basics of exporting using practical examples.

In 2005/2006, the Service Export Program (SEP) was in its second year of helping service-sector exporters close deals in new markets. With 58 participants accessing markets such as China, the Caribbean, Africa, Poland, and UAE, the SEP has been a major success for NSBI. Participating companies reached combined sales of more than $26 million.

The Export Prospector Program is tailored to each company's strategy. NSBI's trade team develop and manage intensive contract programs to uncover qualified prospects for each company in specific markets. The result is an itinerary of meetings with qualified prospects. In 2005/2006, 24 companies reported more than $5.8 million in combined sales as a result of 134 meetings.

In 2005/2006, NSBI's trade team arranged more than 1,300 selling or partnering meetings for 197 clients who reported new and/or further export market penetration. As a direct result, these companies had combined export sales totalling more than $54 million. These activities are expected to help create 601 jobs. It is estimated that one job is created for every $90,000 in incremental exports.

Looking Forward

Staying ahead of the game is vital in an ever-changing, global business environment. Nova Scotia's economy is strong, and NSBI is committed to doing its part to maintain the province's momentous growth. The financial services team will keep up the momentum from 2005/2006 by working with other members of the NSBI team and its partners to develop new financial products and solutions for growth-oriented companies.

Financial Services Authorizations

Offers Accepted:	
Kytogenics	$ 750,000
Unique Solutions Design Ltd.	$ 350,000
Halifax Film Company Ltd.	$ 3,000,000
Mersey Point Fish Products	$ 170,000
Federal Gypsum Company	$ 1,000,000
EPS Wood Products Ltd.	$ 400,000
Stonehame Farm Ltd.	$ 350,000
DJ Manufacturing	$ 425,000
Holdright Lumber	$ 150,000
Subtotal	**$ 6,595,000**
Other:	
Offers not accepted by three companies	
Subtotal	**$ 1,450,000**
Total	**$ 8,045,000**

Corporate Governance

Thorough due diligence and adherence to rigorous corporate governance guide the action of NSBI's private sector board. Comprised of 13 respected business leaders from communities across Nova Scotia, the NSBI board provides guidance and governance over NSBI's business activities.

In the spirit of transparency and in the interest of keeping abreast of the issues of business across the province, the board continued its practice of hosting an annual reception for business. In 2005/2006, the Port Hawkesbury reception drew more than 125 members from the local business community.

Including committee meetings, members of the board met over 30 times in 2005/2006 to further the following:

- Oversee the corporate governance framework
- Review and approve quarterly and annual financial reports
- Oversee the strategic planning process
- Identify and monitor major risks facing the corporation
- Monitor the integrity of the corporation's internal control systems
- Approve financial transactions within board limits

CHAIR

F. Thomas Stanfield
President, Stanfield's Limited
Truro

VICE-CHAIR

Doug Hall
Former Managing Director,
RBC Dominion Securities
Halifax

MEMBERS

Dr. Sheila A. Brown
Former President and Vice-Chancellor,
Mount Saint Vincent University
Halifax

James Eisenhauer
President,
ABCO Group Limited
Lunenburg

Lawrence K. Evans, Q.C.
Partner, Evans MacIsaac MacMillan
Port Hawkesbury

James W. Gogan
Former President and CEO,
Empire Company Limited
Stellarton

Maurice Guitton
President,
EADS Composites Atlantic Limited
Lunenburg

Paul Kent
COO xwave and SVP Enterprise
and Business Solutions, Aliant
Halifax

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James MacConnell
Former President and CEO,
Scotsburn Co-operative Services Limited
Scotsburn

Alastair MacLeod
President,
Nova Scotia Chambers for Commerce
Sydney

Thomas A. Rose
Chair and CEO,
TAR Investments Limited
Halifax

Paul Taylor
CEO, Nova Scotia Office
of Economic Development
Halifax

Nancy Tower
Chief Financial Officer,
Emera Inc.
Halifax

OFFICERS

Stephen Lund, President and CEO

Pat Ryan, Vice-President and Chief Operating Officer

Robert Daigle, Vice-President, Business Development

COMMITTEES

The **Audit, Human Resources Governance and Investment Committees** serve to assist the board in carrying out its responsibilities.

The **Audit Committee** oversees NSBI's financial reporting, assesses its internal controls and risk environment, and reviews the report prepared by the corporation's external auditor.

Chair: Lawrence Evans. Members: Alastair MacLeod and Nancy Tower.

The **Human Resource Governance Committee** ensures appropriate human resource-management policies are in place, managing the recruitment process for new board members, as well as developing and overseeing NSBI's corporate governance principles.

Chair: Dr. Sheila Brown. Members: Maurice Guitton and Paul Kent.

The **Investment Committee** oversees NSBI's investment framework and policies, monitors the performance of the corporation's investment portfolio, and approves financial transactions to the full board for approval.

Chair: James Eisenhauer. Members: Thomas Rose, Doug Hall, James MacConnell and James Gogan.

Corporate Scorecard

Promote the growth of new and existing businesses in Nova Scotia

Indicator	Measure	Targets 2005-06	Actual 2005-06	Target 2006-07
Nova Scotia companies expand business within Nova Scotia	# of qualified referrals for export development, investment or financing	120 to NSBI 144 to partner agencies	397 in total (115 to NSBI; 282 to partner agencies)	120 to NSBI 180 to partner agencies
Volume and diversity of exports	# of companies introduced to new markets / further advanced in existing markets	100 clients	197 clients	110 clients

Attract leading edge, sustainable business investment to Nova Scotia

FDI in Nova Scotia	# of companies that relocate part of all of its operations in Nova Scotia	15	15	12
Economic Benefit to Nova Scotia	Average gross salary of new jobs created through business attraction and reinvestment	$32,500	$39,994	$34,500
Fiscally prudent financing	Average portfolio return on investments utilizing SIFs	40-50%	57.8%	40-50%

Provide access to capital for new/existing businesses in Nova Scotia, with the intent of enhancing value-added growth for the province's economy

Indicator	Measure	Targets 2005-06	Actual 2005-06	Target 2006-07
Incremental number of investment projects	# of financings with new / existing companies (80% in Strategic Growth Sectors) utilizing Nova Scotia Business Fund	15 financings	20*	15 [20 including # of successful financial transactions using external partners]
Flexible financing arrangements	% Nova Scotia Business Fund used for equity / working capital deals	Range between 20-25%	64%	No target set. Adjustments made to reflect NSBI's evolving objectives.
Partner for financing solutions	Leverage ratio of Partner: NSBI	Ratio of 1:1	Ratio of 1.6:1	Ratio of 1:1

Increase the visibility and recognition of Nova Scotia - its business climate, advantages and capabilities.

Awareness of NSBI's role in Nova Scotia	Increase over base measure of awareness of NSBI	6 percentage point increase over benchmark**	8 percentage point increase over benchmark (32%)	8 percentage point increase over benchmark

Develop an action-oriented, client-focused organizational culture that encourages, empowers and supports high-performance, entrepreneurial thinking, and professionalism.

Indicator	Measure	Targets 2005-06	Actual 2005-06	Target 2006-07
Employee training and development	% of employees participating in training and development programs	80%	90%	80%
Business culture - deliver results within cost management structure	Operate within annual budget	$8.98 million	$8.87 million	$10.2 million [recurring and non-recurring]

Overall Performance

Jobs within Nova Scotia	# of jobs retained and created by clients	3,700	5,164	3,200
Export sales	Incremental export sales of NSBI clients	$25 million	$54.1 million***	$28 million
Total payroll	Total payroll impact of NSBI clients	$120 million	$201.5 million	$110 million

Notes:

* Includes 12 new authorizations and eight material amendments to existing clients that have a positive net economic benefit to the province. ** Awareness targets for business have been adjusted to increase 2 percentage points annually since benchmark awareness level was established in 2002/2003. At that point, benchmark awareness was 24 per cent for business. Thus for 2005/2006, the target was 30 per cent. In 2006/2007, the target is 32 per cent. *** In addition, there was a further $28.9 million in expected export sales from Nova Scotia businesses as a result of trade shows that NSBI participated in. If these export sales were included, total incremental export sales would be $83.0 million for the year.

FINANCIAL STATEMENTS

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of Nova Scotia Business Inc. have been prepared by management in accordance with Canadian generally accepted accounting principles and, if necessary, contain certain items that reflect best estimates and judgment of management. The integrity and objectivity of the data in these financial statements are management's responsibility. Management is responsible for ensuring that all information in the Annual Report is consistent with the financial statements.

In support of its responsibility, management has developed and maintains financial and management control systems and practices to provide reasonable assurance that transactions are properly authorized and recorded, that financial information is reliable, that the assets are safeguarded and liabilities recognized, and that the operations are carried out effectively.

The Board of Directors' Audit Committee, comprised of non-management directors, oversees management's responsibilities for financial reporting. The Audit Committee meets regularly with management, compliance & risk management, and the independent auditors to review internal accounting controls, audit results, accounting principles and practices, and to review and approve the financial statements.

These financial statements have been audited by the corporation's external auditors, KPMG LLP, and their report is presented herein.

Stephen Lund
President and
Chief Executive Officer

Mary Meade, CA
Controller

AUDITORS' REPORT

To the Directors of Nova Scotia Business Incorporated

We have audited the balance sheet of Nova Scotia Business Incorporated as at March 31, 2006 and the statements of revenue, expenditures and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Halifax, Canada
May 26, 2006

Chartered Accountants

BALANCE SHEET (in thousands of dollars)

March 31, 2006, with comparative figures for 2005	2006	2005
Assets		
Current assets:		
Cash	$ 32,949	$ 15,118
Accrued interest receivable	830	521
Due from the Province of Nova Scotia	8,356	11,576
Current portion of loans receivable (note 3)	6,883	10,892
Other receivables	446	572
	49,464	38,679
Nova Scotia Business Fund assets:		
Loans receivable (note 3 and 7)	93,987	95,177
Equity investments (note 4 and 7)	12,233	10,382
Industrial Parks and malls (note 5)	3,871	4,393
Other assets (note 6 and 7)	100	110
	110,191	110,062
	$ 159,655	$ 148,741
Liabilities and Shareholder's Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 14,681	$ 13,687
Provision for payment of guarantees (note 7)	650	2,077
Principal due within one year to the Province of Nova Scotia (note 8)	16,203	11,736
	31,534	27,500
Long term debt:		
Due to the Province of Nova Scotia (note 8)	103,366	104,810
Shareholder's equity:		
Share capital and retained earnings (note 9)	24,755	16,431
Commitments (note 10)		
Contingencies (note 11)		
	$ 159,655	$ 148,741

See accompanying notes to financial statements

On Behalf of the Board

Director

Director

STATEMENT OF REVENUE, EXPENDITURES AND RETAINED EARNINGS (in thousands of dollars)

Year ended March 31, 2006, with comparative figures for 2005

	2006	2005
Revenue:		
Provincial grants:		
Operating grant	$ 8,981	$ 7,200
Strategic investment grant	12,273	11,169
Valuation allowance grant	1,600	1,600
Interest on loans receivable	11,206	8,719
Other investment income	324	322
Gain on sale of land/property	5,793	568
Miscellaneous	758	1,106
	40,935	30,684
Expenses:		
Schedule of Operating Expenses	8,925	7,282
Strategic investments	12,273	11,169
Provision for credit losses and payment of guarantees	1,284	1,263
Schedule of Nova Scotia Business Fund Expenses	10,129	7,808
	32,611	27,522
Excess of revenue over expenditures	8,324	3,162
Retained earnings, beginning of year	16,431	13,269
Retained earnings, end of year	$ 24,755	$ 16,431

See accompanying notes to financial statements

STATEMENT OF CASH FLOWS (in thousands of dollars)

Year ended March 31, 2006, with comparative figures for 2005

	2006	2005
Cash provided by (used in):		
Operations:		
Excess of revenue over expenditures	$ 8,324	$ 3,162
Items not involving cash:		
Amortization	201	229
Provision for credit losses and payments of guarantees	1,285	1,263
Capitalized interest on loans receivable	(4,016)	(1,953)
Gain on sale of land/property	(5,793)	(568)
Change in non cash operating working capital:		
Decrease (increase) in accrued interest receivable	(309)	39
Decrease (increase) in due from the Province of Nova Scotia	3,220	(2,340)
Decrease in other receivables	126	116
Increase (decrease) in accounts payable and accrued liabilities	994	(4,506)
	4,032	(4,558)
Financing:		
New borrowings from the Province of Nova Scotia	11,466	11,697
Principal repayments to the Province of Nova Scotia	(8,443)	(12,388)
	3,023	(691)
Investments:		
Loan advances	(8,400)	(3,494)
Principal received on loans	15,216	13,399
Redemption of shares	111	104
Equity investments	(4,275)	(3,475)
Convertible debenture repayment	2,000	-
Proceeds from disposal of Industrial Parks	6,245	939
Capital additions	(131)	(170)
Other	10	21
	10,776	7,324
Increase in cash position	17,831	2,075
Cash position, beginning of year	15,118	13,043
Cash position, end of year	$ 32,949	$ 15,118

See accompanying notes to financial statements

Nova Scotia Business Incorporated (the "Corporation") is a corporation, wholly owned by the Province of Nova Scotia with an independent Board of Directors. The Corporation was established pursuant to the Nova Scotia Business Incorporated Act, Chapter 30 of the Acts of Nova Scotia, 2000. The Corporation's mission is to deliver client focused business solutions that result in sustainable, value added economic growth for Nova Scotia.

1. Summary of significant accounting policies:

(a) Loans receivable:

Loans receivable are recorded at cost less a general allowance for credit losses equal to 5% of cost. In addition, a specific allowance is recorded if management considers it necessary to reduce the loan to its estimated recoverable amount.

(b) Equity investments:

Equity investments are initially recorded at cost less a general allowance for credit losses equal to 10% of cost. This allowance is immediately recorded to reflect the increased risk associated with equity investments. The investments are reviewed annually for potential declines in value - if a decline is considered to be other than temporary, a specific allowance is recorded.

(c) Industrial parks and malls:

The industrial parks and malls consist of properties held for sale and improved properties consisting of land and land improvements, buildings, wharves and utilities. Land is recorded at the lower of cost and estimated net realizable value. The remaining assets are recorded at cost and amortized on a declining balance basis over their estimated useful lives as follows:

Asset	Basis	Rate
Land improvements	Declining balance	5%
Industrial malls and other buildings	Declining balance	5%
Wharves	Declining balance	5%
Utilities	Declining balance	15%

The Department of Transportation and Public Works has operational responsibility for the industrial parks and malls. Certain revenues and expenses associated with the operation of the industrial parks and malls are accounted for by the Department of Transportation and Public Works and are not reflected in these financial statements.

(d) Other assets:

Other assets are recorded at cost less a general allowance for credit losses equal to 5% of cost. In addition, a specific allowance is recorded if management considers it necessary to reduce the asset to its estimated recoverable amount.

(e) Revenue recognition:

Interest revenue on loans receivable is recognized on an accrual basis unless the ultimate collectibility of the loan is in doubt. When a loan is classified as impaired, interest revenue is no longer recognized, and any interest income that is accrued is reversed. A loan is considered impaired when there is risk of loss to the Corporation of the full and timely collection of principal and interest; generally, when it is more than three months in arrears. In the event a loan is no longer considered to be impaired, interest revenue is recognized in the year of recovery.

(f) Allowance for credit losses and provision for payment of guarantees:

As financing is advanced, the Corporation immediately records a general allowance equal to 5 - 10% of the amount disbursed. In addition, the Corporation provides for possible credit losses on an item by item basis by examining such factors as the client's financial condition and the fair value of the underlying security.

The provision for credit losses is partially offset by funding from the Province of Nova Scotia in the form of a Valuation Allowance Grant.

(g) Employee future benefits:

Upon retirement, employees are eligible for a public service award equal to one week's salary per year of service to a maximum of twenty-six years. Management recognizes compensation expense on an accrual basis. The liability for the period prior to NSBI's inception is recorded on the financial statements of the Province of Nova Scotia.

1. Summary of significant accounting policies (continued):

(h) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

2. Fair value of financial instruments:

The carrying value of cash, accrued interest receivable, due from the Province of Nova Scotia other receivables, and accounts payable and accrued liabilities approximate their fair value because of their short term to maturity.

The fair values of loans receivable approximate their net realizable value.

Equity investments, loan guarantees and other assets represent investments and guarantees in privately held companies, as well as property acquired through foreclosure. Due to the limited amount of comparable market information available, it was not practical to determine the fair value of these assets.

Due to the Province of Nova Scotia is comprised of a series of separate notes, the largest of which has no set terms of repayment. Principal is repaid to the Province as it is collected on the loans receivable financed by this note. Due to the volume of accounts financed by the notes and the uncertainty with respect to timing of future cash flows, it is not practical to determine the fair value of the amount due to the Province of Nova Scotia.

3. Loans receivable:

	2006	2005
(a) Principal due:		
Performing loans	$ 120,460	$ 119,389
Impaired loan	23,415	33,332
	143,875	152,721
Allowance for credit losses (note 7)	43,005	46,652
	100,870	106,069
Less current portion	6,883	10,892
	$ 93,987	$ 95,177

Included in the above loans receivable are loans with concessionary terms, which have principal amounts outstanding of $461 (2005 - $614) and concessionary allowance of $88 (2005 - $136). The concessionary terms consist of interest free financing.

The concessionary allowance is calculated as the difference between the financing advances and the net present value of the anticipated future repayments at an interest rate similar to the usual established terms of the Corporation.

(b) Principal payments receivable in each of the next five years are as follows:

2007	$ 6,883
2008	7,358
2009	7,238
2010	8,496
2011	7,066

4. Equity investments:

	2006	2005
Common shares	$ 4,641	$ 4,434
Preferred shares	11,588	6,592
Convertible debentures	6,125	6,486
	22,354	17,512
Allowance for credit losses (note 7)	10,121	7,130
	$ 12,233	$ 10,382

One of the convertible debentures, valued at $1 million, matured before year end. The Corporation intends to exercise the conversion option. Upon completion of legal documents, the debenture will convert into common shares at a specified rate and amount equal to the value of the debenture.

5. Industrial parks and malls:

			2006	2005
	Cost	Accumulated amortization	Net Book Value	Net Book Value
Land	$ 225	$ -	$ 225	$ 268
Land improvements	1,221	342	879	794
Industrial malls and other buildings	3,800	2,071	1,729	2,223
Utilities	872	370	502	543
Wharves	1,592	1,056	536	565
	$ 7,710	$ 3,839	$ 3,871	$ 4,393

6. Other assets:

	2006	2005
Property acquired through foreclosure, at cost	$ 927	$ 938
Less allowance for losses (note 7)	827	828
	$ 100	$ 110

7. Allowance for credit losses and provision for payment of guarantees:

	Gross balance outstanding	Specific allowance	General allowance	Total allowance	2006 Net balance outstanding
Loans receivable (note 3)	$ 143,875	$ 38,332	$ 4,673	$ 43,005	$ 100,870
Equity investments (note 4)	22,354	8,915	1,206	10,121	12,233
Guarantees (note 11)	2,754	650	-	650	2,104
Other assets (note 6)	927	822	5	827	100
	$ 169,910	$ 48,719	$ 5,884	$ 54,603	$ 115,307

	Gross balance outstanding	Specific allowance	General allowance	Total allowance	2005 Net balance outstanding
Loans receivable (note 3)	$ 152,721	$ 41,582	$ 5,070	$ 46,652	$ 106,069
Equity investments (note 4)	17,512	6,302	828	7,130	10,382
Guarantees (note 11)	2,823	2,077	-	2,077	746
Other assets (note 6)	938	822	6	828	110
	$ 173,994	$ 50,783	$ 5,904	$ 56,687	$ 117,307

8. Due to Province of Nova Scotia:

(a) Notes payable to the Province of Nova Scotia are comprised of the following:

	Year of Maturity	Weighted average interest rate	2006 Principal outstanding	2005 Principal outstanding
Note payable 2002 01	-	-	$ 63,767	$ 67,844
Note payable 2002 02	2021	6.54%	38,931	39,031
Note payable 2003 01	2008	4.85%	2,533	2,687
Note payable 2003 02	2008	4.53%	275	439
Note payable 2003 03	2012	5.02%	271	322
Note payable 2003 04	2014	5.35%	944	1,051
Note payable 2003 05	2011	5.44%	1,180	1,119
Note payable 2004 01	2017	4.61%	3,330	3,598
Note payable 2004 02	2015	3.40% - 4.52%	5,445	455
Note payable 2005 01	2011	4.21%	1,795	-
Note payable 2005 02	2014	3.80%	1,098	-
			119,569	116,546
Less principal due within one year			16,203	11,736
			$ 103,366	$ 104,810

The principal for note 2002-01 is repayable to the Province when the principal is collected from the loans that are funded by this note. In addition, 80% of the interest received or capitalized on the underlying loans is repayable to the Province.

The remaining notes are repayable in quarterly instalments of principal and interest based on the maturity dates and rates set out above.

(b) Principal payments due in each of the next five years are as follows:

2007	$ 16,203
2008	7,086
2009	7,004
2010	6,767
2011	6,777

9. Share capital:

The Corporation is authorized to issue 100 Class A common shares with a par value of $1 each. At year end, 100 common shares have been issued to the Province of Nova Scotia.

10. Commitments:

(a) The Corporation has approved financing of $1,563 (2005 - $8,290) that is undisbursed at year-end.

(b) The Corporation administers strategic investments on behalf of the Province of Nova Scotia that permit approved businesses to receive a percentage of payroll taxes paid as a rebate. Expenses incurred by the Corporation are match funded by the Province of Nova Scotia in the form of a Strategic Investment Grant. As at March 31, 2006, transactions were approved with maximum annual payments over the next seven years of $99.6 million (2005 - $91.8 million) as shown below.

2007	$ 21,288
2008	22,081
2009	19,064
2010	18,406
2011	11,080
2012	7,604
2013	116
	$ 99,639

(c) In one of the Industrial Parks owned by the Corporation, two sewage treatment plants are in operation that do not consistently meet current discharge standards. Management estimates a capital investment of approximately $2.3 million is required in order to meet environmental standards for the first plant. The cost to remedy the second plant is dependent upon the analysis of data readings currently being done in consultation with the Nova Scotia Department of Environment and Labour.

11. Contingencies:

(a) Guarantees:

	Authorized	2006 Utilized	2005 Utilized
Bank loans	$ 2,754	$ 2,754	$ 2,823
Less provision for payment		650	2,077
		$ 2,104	$ 746

Included in the above guarantee is a term loan in the amount of $2,354 expiring in 2008 and a guarantee of a line of credit in the amount of $400 expiring in 2011.

The guarantees are secured by various assets and proceeds from liquidation are expected to offset any possible payments under the guarantees.

In 2005, a bank loan guarantee issued in the amount of $323 was demanded by the bank before the year ended. The guarantees had a provision for payment of $200 recorded against it. The Corporation issued a new guarantee in the amount of $400 to the bank during the year that will expire in 2011.

(b) Litigation:

The Corporation is a co-defender with the Province of Nova Scotia and Industrial Estates Limited in a dispute regarding environmental contamination on land previously owned by Industrial Estates Limited. It is assumed that any losses incurred related to this claim will be fully funded by the Province of Nova Scotia.

Counsel is unable to form an opinion at this early date in regard to the likelihood of loss; consequently, no provision for any possible loss has been recorded in these financial statements.

12. Nova Scotia Business Fund:

The Nova Scotia Business Fund (the "Fund") is comprised of investments approved under the direction and management of Nova Scotia Business Incorporated and investments have been transferred from the Nova Scotia Business Development Corporation Fund on November 6, 2001. The following is a summary of the Fund as at March 31.

	2006	2005
Assets		
Nova Scotia Business Incorporated portfolio	$ 26,553	$ 20,184
Loan guarantees (note 11)	2,754	2,500
Less allowance for credit losses	13,126	8,257
	16,181	14,427
Financing authorized but unadvanced (note 10)	1,563	7,983
	17,744	22,410
Nova Scotia Business Development Corporation portfolio	144,474	155,380
Loan guarantees (note 11)	-	323
Less allowance for credit losses	41,477	48,430
	102,997	107,273
Financing authorized but unadvanced (note 10)	-	307
	102,997	107,580
	$ 120,741	$ 129,990
Funding authorized and committed:		
Fund balance authorized, net of write offs	$ 266,818	$ 270,187
Less uncommitted balance of fund	91,474	83,510
Committed fund balance	175,344	186,677
Less allowance for credit losses and payment of guarantees	54,603	56,687
	$ 120,741	$ 129,990

13. Credit risk and interest risk:

(a) Credit risk:

Credit risk is the risk that a debtor may not pay amounts owing, thus resulting in a loss. To mitigate this risk, the Corporation has developed the following policies:

Before financing is approved, a risk assessment is performed on the client. Each application is designated a risk rating based on the industry and business, quality of management, financial history and projections, the level of other creditor involvement and shareholder participation, and environmental risks. The terms and conditions of the approved financing are reflective of the assessed risk. Application with unacceptable levels of risk are not approved.

Clients are usually limited to a total of $15 million in financing from Nova Scotia Business Incorporated's Nova Scotia Business Fund. Two clients currently exceed this total; their loans were approved in the Nova Scotia Business Development Corporation Fund and transferred to the Nova Scotia Business Fund via legislation on November 6, 2001. The outstanding amounts for these clients are approximately $39 million and $27 million, respectively (2005 - $46 million and $23 million). A third client, with existing financing of $2.6 million from the Fund, had new financing of approximately $17 million approved subsequent to year end.

The risk rating is monitored on an on-going basis. Clients identified as higher risk are further assessed at year end to determine the extent of the potential loss, taking into account the value of the security pledged in support of the financial assistance. This assessment could result in a reduction in the carrying value of the investment via the provision for credit losses.

(b) Interest risk:

Interest rate risk is the impact future changes of interest rates have on cash flows and fair value of assets and liabilities. To mitigate this risk, the Corporation matches the repayment timing of amounts borrowed with the repayment timing of financing advanced as closely as practical.

14. Taxes:

The Corporation is not subject to provincial or federal taxes

15. Supplementary cash information:

Cash position is defined as cash and short term investments.
During the year, cash received for interest income was $7,255 (2005 - $7,067) and cash paid for interest was $5,661 (2005 - $10,465).

Non cash investing activities	2006	2005
Conversion of loans to equity	$ 364	$ -

16. Related party transactions:

Financing has been advanced to companies which were controlled or otherwise not independent of certain directors of Nova Scotia Business Incorporated at the time of the transactions. These investments totaled $34,180 (2005 - $30,243) and certain of these investments have specific allowances recorded against them totaling $5,489 (2005 - $10,286).

These transactions were carried out in the normal course of operations and on terms and conditions that would be similar to those of non related parties.

The Corporation occupies premises for which no rental fee is charged by the shareholder. Management estimates the annual cost to lease the premises is approximately $640,000.

17. Employee pension plan:

Employees of the Company participate in the Public Service Superannuation Fund (the "Plan"), a contributory defined benefit pension plan administered by the Province of Nova Scotia, which provides pension benefits based on length of service and earnings. Contributions to the Plan are required by both the employees and the employer. Total employer contributions for 2006 were $282 (2005 - $264) and are recognized as an expense in the period. The Company is not responsible for any under funded liability, nor does the Company have any access to any surplus that may arise in this Plan.

18. Comparative figures:

Certain 2005 comparative figures have been reclassified to conform with the financial presentation adopted per the current year.

SCHEDULE OF OPERATING EXPENSES

(in thousands of dollars)

Year ended March 31, 2006, with comparative figures for 2005

	2006	2005
Business development	$ 1,653	$ 1,096
Legal and audit	272	98
Office expenses	658	270
Other	87	97
Salaries and benefits	5,190	4,886
Telecommunications and technical support	398	333
Travel	667	502
	$ 8,925	$ 7,282

SCHEDULE OF NOVA SCOTIA BUSINESS FUND EXPENSES

(in thousands of dollars)

Year ended March 31, 2006, with comparative figures for 2005

	2006	2005
Amortization	$ 201	$ 229
Commissions	76	67
Interest	9,452	6,955
Legal	12	6
Repairs and maintenance	388	551
	$ 10,129	$ 7,808

NOTES

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Nova Scotia Business Inc.

Opportunity. Growth. Prosperity.

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